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COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

AT RICHMOND, JUNE 2, 1999

PETITION OF

CASE NO. PUA990022

AQUASOURCE UTILITY, INC.,

and

DEWEY E. HOLDAWAY

For approval to acquire control of all the
assets of Cherry Hill Water Company

ORDER GRANTING APPROVAL

On April 12, 1999, AquaSource Utility, Inc., (“AquaSource”, the “Company”) and Dewey E. Holdaway (“Mr. Holdaway”) filed a petition under the Utility Transfers Act. Mr. Holdaway owns the assets of Cherry Hill Water Company (“Cherry Hill”) and seeks authority to dispose of all such assets to AquaSource. As stated in the petition, upon consummation of the transaction, Cherry Hill will become the property of AquaSource and will continue to operate as a separate small water system. AquaSource contemplates holding the assets of Cherry Hill in AquaSource Utility, Inc. Cherry Hill serves less than

fifty customers¹ in Bedford County, Virginia and, as such, is not required to incorporate as a public service company, or obtain a Certificate of Public Convenience and Necessity. Because Cherry Hill is neither a certificated public utility nor a public service company under Virginia law, AquaSource states that it need not become a Virginia public service company in order to hold the assets of Cherry Hill. Should the Commission disagree with the aforementioned, AquaSource requests that the Commission grant any additional authority necessary for AquaSource to transfer the assets to a separate subsidiary of AquaSource Utility, Inc. AquaSource would then provide operations, maintenance and other services to the subsidiary by contract.

AquaSource is a wholly-owned subsidiary of AquaSource, Inc., which is in turn a wholly-owned subsidiary of DQE, Inc., a publicly traded utility holding company. In addition to water and wastewater utilities, AquaSource and AquaSource, Inc., also own non-regulated water and wastewater related businesses such as construction and engineering companies, water and wastewater system leasing and fabrication businesses, and contract operation services for other owners of water and wastewater facilities.

AquaSource and AquaSource, Inc., (the “Companies”) received approval from their Boards to invest over \$400 million in water and wastewater utility companies. The Companies provide potable water and wastewater services to more than 300,000 customers and are currently negotiating to acquire numerous additional water utilities across the country, including Virginia. AquaSource is headquartered in Houston, Texas and has several other offices in various areas of the country.

¹ The Petition states that the Cherry Hill System serves forty-six customers.

DQE, Inc., the parent company of AquaSource, Inc., is a Pennsylvania based energy service company and parent of Duquesne Light Company. DQE, Inc., has assets of more than \$4.6 billion and annual revenues in excess of \$1.2 billion. AquaSource and AquaSource, Inc., report their financial data on a consolidated basis with DQE, Inc.

As agreed by AquaSource and Mr. Holdaway, AquaSource will pay Mr. Holdaway \$14,450.00 in cash for the assets of Cherry Hill, as adjusted pursuant to the Asset Purchase Agreement. AquaSource represents that adequate service at just and reasonable rates will not be impaired or jeopardized by the proposed transfer of Cherry Hill's assets. AquaSource further represents that it plans to provide system improvements to Cherry Hill's customers without a change in those customers' current water rates.

In this petition, AquaSource seeks to purchase the assets of Cherry Hill rather than purchase the stock as was the case in the previous AquaSource acquisitions. AquaSource represents that, in the long-term, AquaSource's acquisition of Cherry Hill will provide access to substantial operating and financial resources that would not be available under current ownership.

AquaSource states that, absent extraordinary and unforeseen expenses, capital additions or capital improvements, it expects to hold rates at their current level for the next several years.

The Company states that AquaSource proposes to offset any need to increase rates, due to increased investment directly attributable to the acquisition, against expense reductions it expects to achieve in the Cherry Hill operations. AquaSource also states that, to the extent AquaSource is able to achieve and retain expense reductions resulting

from operating efficiencies achieved over time, ratepayers will be insulated from any need to increase rates.

THE COMMISSION, upon consideration of the petition and representations of the Company and having been advised by its Staff, is of the opinion and finds that the above-described transfer of assets will neither impair nor jeopardize the provision of adequate service to the public at just and reasonable rates and should be approved. The Commission notes that, of the many water systems acquired by AquaSource, Cherry Hill, which serves forty-six customers, is the only system thus far that AquaSource will operate directly. AquaSource should not, therefore, pursuant to § 56-265.1 and § 56-265.3 of the Code of Virginia, be required to obtain a Certificate of Public Convenience and Necessity for that system. A certificate should, however, be required if AquaSource acquires the assets of another small system and the aggregate number of customers served by AquaSource totals fifty or more. In addition, AquaSource shall incorporate as a public service company if it proposes to serve more than fifty customers. Accordingly,

IT IS ORDERED THAT:

1) Pursuant to §§ 56-89 and 56-90 of the Code of Virginia, AquaSource Utility, Inc., is hereby granted approval to acquire all the assets of Cherry Hill under the terms and conditions and at the price of \$14,450.00, as adjusted pursuant to the Asset Purchase Agreement, as described herein.

2) Cherry Hill Water Company shall file a Report of Action with the Director of Public Utility Accounting of the Commission on or before August 10, 1999, subject to extension by the Commission's Director of Public Utility Accounting. Such report shall

contain the date of transfer, the sales price, and all accounting entries reflecting the transfer.

3) There appearing nothing further to be done in this matter, the same be, and it hereby is, dismissed.